



Penn Treaty American CorporationSM

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October 24, 2005

Mr. Jeffrey Johnston, Director
Financial Regulatory Services
National Association of Insurance Commissioners
NAIC Executive Headquarters
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Re: Notification of Class Action Lawsuit and Settlement

Dear Mr. Johnston:

I write on behalf of Penn Treaty Network America Insurance Company and American Network Insurance Company (collectively "Penn Treaty") to provide you with notice of a settlement of a class action lawsuit against Penn Treaty with regard to premium rate increases. This settlement agreement was preliminarily approved by the Court in the Fifth Judicial Circuit of the State of Florida in August 2005 as being fair, reasonable and adequate to all policyholders and Penn Treaty. This lawsuit was originally brought on behalf of a Florida-wide class of purchasers of certain long-term care insurance policies from Penn Treaty, but has now been amended to assert claims on behalf of a nationwide class. The nationwide class will include any policyholder having, at any time, an in-force policy from January 1, 1997 through September 12, 2001, which was subject to a premium rate increase.

Notice of the settlement agreement is being mailed to all national class members on October 26, 2005. The class notification will include detailed instructions and contact information for class members regarding questions they may have. We are sending this letter to insurance department regulators as a courtesy because it is likely that your department will be contacted by Penn Treaty policyholders looking for guidance with regard to the preliminary settlement agreement.

Penn Treaty vigorously denies all of Plaintiffs' allegations and contends that its right to raise premiums is specifically set forth on the face of each of the policies and that all premium increases were proper under applicable law (including laws requiring approval of such premium increases by regulatory authorities). However, Penn Treaty recognizes the risks, expense and length of continuing these proceedings through trial and any appeals, particularly given the complexity of the issues involved, and Penn Treaty desires to avoid continued adversity toward its valued policyholders.

Following extensive negotiations, the parties reached a settlement agreement. Under the terms of the settlement, Plaintiffs agreed to settle their claims against Penn Treaty and its affiliates on a nationwide basis. Pursuant to the terms of the settlement agreement, Penn Treaty will offer class members the opportunity to elect certain benefits, depending on their status as a current policyholder or a

policyholder who cancelled or allowed their policy to lapse. The precise terms are described more fully in the class notice, a copy of which is enclosed for your information and review. We believe that the

agreement is fair, reasonable and adequate to all policyholders and Penn Treaty. In addition, we believe that the settlement will not unfairly burden the capital and surplus of Penn Treaty, while providing substantial future protection to class members in the event they elect to participate.

Again, we are providing this letter as a courtesy so that regulators can be better prepared to respond to questions regarding this matter. We have sent this notice to each state's financial regulation and market conduct representative. We encourage you to share this information with anyone else in your insurance department as you believe appropriate. I will be more than happy to speak with regulators to discuss this matter further should you have any questions. You may contact me at 610.965.2222 ext. 3637 or Cameron Waite at 610.965.2222 ext. 3699.

Sincerely,

Jane M. Bagley, Esquire
Vice President, Corporate Counsel and Corporate Secretary

Cc: Stephen Johnson

Attach.